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ASIA-PACIFIC ECONOMIC SURVEYS: AFGHANISTAN

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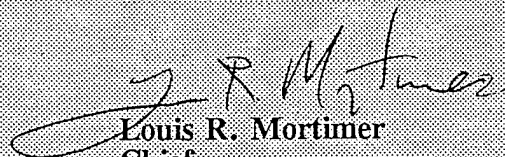
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ASIA PACIFIC ECONOMIC SURVEYS: AFGHANISTAN

SUMMARY STATEMENT

In 1986, the Communist-controlled press of the Democratic Republic of Afghanistan (DRA) made repeated claims of economic progress and forecast a roseate future for the nation's economy. Kabul New Times predicted a 25-percent increase in the gross national product over the course of the next 5-year plan. Western observers, however, describe a nation deeply in debt and in economic ruin. According to these sources, production in the economy's most important sector, agriculture, has fallen to 20 to 25 percent of pre-1979 levels, and the price of most commodities has risen six to tenfold. Severe food shortages are widespread, and in some areas famine conditions are prevalent.

The fighting between Soviet/DRA troops and the mujahideen "warriors of the faith" intensified in 1986. Observers described a "standoff" between opposing forces, but many cautioned that the Soviets were following a long-term strategy to achieve their objectives--the scorched-earth destruction of the rural Afghan economic infrastructure--to cut off the source of sustenance for the resistance. Hence, villages have been depopulated, vital irrigation systems destroyed, and cultivated fields burned or mined.

In Afghanistan two separate economic systems are now apparent: an urban-based DRA economy which is increasingly dependent on the Soviet Union and a wider rural subsistence agricultural economy which remains under the control of the resistance.

AFGHANISTAN IN 1986: AN ECONOMIC QUAGMIRE INCREASINGLY INDEBTED TO THE SOVIET UNION

Domestically, Afghanistan is a country beset by mounting internal strife. Internationally, the DRA government is isolated from, and considered a pariah by, the world community; its economic as well as political puppet status is impossible to hide. The DRA announced in 1985 that 95 percent of its aid would henceforth come from the Soviet Union. At present about 60 percent of nonmilitary Soviet "aid" is allocated for the extraction of mineral resources that are used to offset the DRA's mounting "war debts" to the Soviet Union.

REGIME TRIES TO BROADEN PRIVATE SECTOR PARTICIPATION IN GOVERNMENT

In January 1987, the DRA announced the creation of an Economic Consultative Council which would improve the climate for "national traders and entrepreneurs." Although the

government offered to back investors with low interest loans, enthusiasm was dampened when DRA leader Najibullah began to openly criticize the nonparty status of his Commerce Minister. Businessmen were also worried that they would lose their exemption from military conscription.

STATEMENT OF INTERNATIONAL FINANCIAL OBLIGATIONS

In the post World War II years, the Afghan economy relied on foreign government loans and grants, including trade finance funds, to cover its deficit. During this time, the Soviet Union was consistently the largest single trade-assistance donor, followed by the United States, West Germany, and Czechoslovakia. After the Communist coup in April 1978, trade finance from Western nations dwindled to almost nothing but was greatly increased from the Soviet Union. In 1982, the overall balance of payment deficit reached \$US70.3 million.

In 1977, the Afghan debt to the Soviets constituted about two-thirds of its total foreign debt. In 1983, Afghanistan owed the Soviet Union over \$2.6 billion which represented over three-quarters of its foreign debt. This increase over a few years indicates the rapid integration of the country's economy with that of the Soviet Union, which is also paying virtually all defense costs for the small, isolated, and unpopular DRA government. The Soviet war effort in Afghanistan is costing an estimated \$3.5 billion a year.

AGRICULTURE SUFFERS AS POPULATION IS FORCED TO FLEE RURAL AREAS

Aggressive Soviet military operations against targets in rural areas of Afghanistan have precipitated a flood of refugees to Pakistan and Iran. Approximately one-third of the prewar population has fled villages that were destroyed and crop fields that were burned-out and mined. The net result of Soviet tactics has been a drop in agricultural production--the dominant sector in the economy--which employs over 60 percent of Afghans and accounts for, along with forestry, 70 percent of GDP.

MAJOR PRODUCTION AND FOREIGN TRADE ITEMS

Afghanistan's relations with the majority of nations continued to deteriorate in 1986. The part of the economy which fell under DRA control had, out of necessity, a direct financial umbilical cord to the Soviet Union. As Soviet leverage in Afghanistan increases, the mechanisms of Communist-style centralized planning become increasingly visible.

Major Afghan crops include wheat, corn, rice, fruits, nuts, and vegetables, with the last three ranking as important exports. The handicraft and textile industries (i.e., carpets and rugs) remain in a primitive state but contributed about 21 percent to the GDP in 1982. Mineral resources include natural gas, coal, copper, iron, barite, chrome, and gems such as lapis lazuli. Natural gas is by far the greatest economic return garnered by the Soviets from their invasion of Afghanistan. Extensive Soviet exploitation of Afghan natural gas prompted DRA leader Najibullah to complain in a June 1986 speech that the Soviets had, during the past year, taken 2.4 out of 2.6 billion cubic metres, which left very little for the Afghans. The precise quantity of natural gas piped to the Soviet Union is, however, unknown because the gauges measuring the flow are located on the Soviet side of the border. DRA statistics claim that Moscow pays over \$300 million a year for the natural gas. This sum is not received as a cash payment but is factored into the repayment of Afghanistan's massive and growing debt to the Soviet Union. In addition, the Afghan Geological Survey Department reported in 1984 that uranium mining had commenced north of Kabul. The DRA is not forthcoming with details on the extent of its uranium exploitation, the mining of which seems to be under strict Soviet control.

PRINCIPAL TRADING PARTNERS

During the 1970s, exports to the Soviet Union accounted for about one-third of total exports. By 1981, over 60 percent of Afghanistan's exports were destined for the Soviet Union. This increase reflects the rapid integration of the Afghan with the Soviet economy. Afghan trade with the Soviet Union and with other Soviet Bloc countries is carried out on a barter system in which a quantity of traded goods and their prices are set in annual negotiations. Other primary destinations for Afghan goods include India (7.7 percent of total exports), Pakistan (7.5 percent), the United Kingdom (7.4 percent), and West Germany (7.3 percent). Afghanistan receives over 50 percent of its imports from the Soviet Union and approximately 18 percent from Japan.

ECONOMIC IMPORTANCE TO THE UNITED STATES

Afghanistan, with its backward and nonindustrially based economy, has never been of great economic importance to the United States. For political and developmental reasons, the United States provided up to 1978 (when US assistance was terminated) \$532.87 million in aid. The United States is alarmed not only at the Soviet destruction of the Afghan economy and culture but also by the unsettling effect millions of Afghan

refugees are having on the Pakistani society. The US contribution for refugee assistance so far approaches \$500 million. The United States in 1986 also established a congressionally funded and USAID administered program for war-ravaged Afghanistan which will promote in-country assistance in health, education, and community support. This program will be increased from last year's \$15 million to an anticipated \$30 million in fiscal 1987.